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An analysis of the European Central Bank presidents -

How has the ECB monetary policy changed and what role have the presidents played in shaping the future of the Eurozone?

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Tiivistelmä: This thesis aims at researching the recent history of the EMU and the monetary policy shift of the ECB in addition to its presidents roles in shaping the economy. This thesis will provide background information on the economic constitution of the EMU and how it has transformed over the course of Euro crisis and the years after. Additionally, the monetary policy actions of the ECB amongst Euro crisis and the COVID-19 pandemic will be studied.

I argue that by transitioning to an expansionary monetary policy earlier than originally happened, some of the more severe economic impacts of the Euro crisis could have been prevented and it would not have led to a lost decade for the growth of the Eurozone. Additionally, I argue that the central bankers' implications for molding our future is enormous as it is clear that market actors react to their statements. My research questions are as follows: What problems or flaws have been identified within the EMU and how could they be improved? What are the presidents' implications and effects on influencing the economy? Furthermore, how has the shift of the ECB monetary policy from hawks to doves happened over the years?

This thesis utilizes critical discourse analysis in researching the materials, which comprise of the presidents annual hearings before the Plenary of the European Parliament, with the exclusion of the last nominated president as she has only been through one. In her case, quarterly Economic and Monetary Committee hearings will be utilized.

The key findings suggest that the ECB presidents have viewed the EMU flawed and have emphasized the completion of the union as too much responsibility has been left for the ECB. The call for more fiscal capacity is repetitive for all three presidents. Furthermore, this research also suggests that the shift from hawks to doves happened because no other way was seen. Additionally, the roles of central bankers have been heightened during the recent history and it shows that they have a great influence on the economy based on the reactions by the market actors and the public.

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Abbreviations

EC	European Community
ECB	European Central Bank
EDP	Excessive Deficit Procedure
ECJ	European Court of Justice
EEC	European Economic Community
EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
FED	Federal Reserve System
GFCC	German Federation Constitutional Court
IMF	International Monetary Fund
MoU	Memorandum of Understanding
OMO	Open Market Operations
OMT	Outright Monetary Transactions
PEPP	Pandemic Emergency Purchase Program
QE	Quantitative Easing
SGP	Stability and Growth Pact
SMP	Securities Market Programme
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism

1 Introduction

The background for this thesis stems from the sheer curiosity towards the Economic and Monetary Union (EMU), the European Central Bank (ECB) and their roles in our current economic system in addition to the topical nature of monetary policies in the midst of economic crises along with a global pandemic. It seems that upon the realization of the inherent flaws in the EMU system, the roles have been heightened and grown in importance in the past decades and now, the public and corporations seem to rely on particularly the ECB (and other central banks) to save the economy. Yet, because the EMU has been inefficient in the past and the ECB is somewhat limited in their actions due to a strictly stated mandate, how exactly can they make a difference? The ECB has been implementing various monetary policy tools during the Euro crisis and the years after, and these policies have led to a significant change in its position. The EMU has also proven to have been founded on unsound policies and an incomplete institutional framework. This, coupled with the growing influence of central bankers in our highly interconnected world with international frameworks make for an interesting research. What are the flaws of the EMU and what are the ECB presidents' implications for molding the future? This is the problematique my thesis is attempting to answer. Therefore, this thesis will focus on the Economic and Monetary Union in addition to the European Central Bank, its monetary policies and its presidents. As the title suggests, this thesis will analyse what comments and statements the different ECB presidents have given on the inherent flaws in the EMU and how these comments have shaped the expectations of market actors and the public.

Adding to this, the thesis aims to uncover the monetary policy decisions made by the Governing Council of the ECB, their position in our current economy and the shift from their hawkish, contractionary monetary policy stance into a more dovish, accommodative and expansionary one. These terms or concepts are widely used by commentators on monetary policy, academics and market participants. Yet, these are by no means a quantitative measure of a central banker or banks, however the terms have been in use for decades. A central banker or a central bank's monetary policy can be labeled as a hawk/hawkish, if the focus of monetary policy is on fighting inflation and implementing strict conditionalities.

Whereas a dove or dovish monetary policy is more accommodative with a higher focus on economic output and employment.

In order to conduct research on these topics, it is necessary to delve into the economic constitution of the (EMU), which the ECB is a part of. This thesis will be conducted by researching the foundations of the EMU and the ECB as a whole and it will be divided into a few different chapters. After this brief introduction chapter to the topic, its main institutions, its research questions and overall aims, the second chapter will provide relevant background information regarding the EMU, its economic constitution and how it has transformed. Further focus will be given to the tightening of the Stability and Growth Pact (SGP) with the legislative measures of the Two-Pack and Six-Pack. Additionally, short introductions to theoretical frameworks of ordoliberalism and new constitutionalism will briefly be covered since they have been foundational guidelines in the establishment of the EMU. The union itself has been viewed as an incomplete one and has been widely criticised. It brought together countries with greatly varied institutions and conditions. It was believed that the union would then develop together and grow more homogenous, which would be succeeded by ever-increasing economic integration and commonly agreed policies.

The other half of the second chapter will focus on the European Central Bank actions during crises in addition to its monetary policy and criticism regarding the policies conducted. The third chapter will present research design and the material selections for the subsequent analysis with the methods utilised. Furthermore, some limitations regarding this thesis will be discussed. The fourth chapter will cover the analysis of three different presidents' hearings before the European Parliament: Jean-Claude Trichet (2003-2011), Mario Draghi (2011-2019) and Christine Lagarde (2019-). This analysis will be conducted with a focus on the Euro Crisis, monetary policy and its tools in addition to the current COVID-19 pandemic induced crisis. Finally, conclusions will be drawn based on the material and background that this thesis has covered, linking them both together.

1.1 Economic and Monetary Union

The Economic and Monetary Union is, to put it simply, an umbrella term for various institutions and strategic plans made for and by the European Union member states. The ideas behind the union are over a half a century old. Hix and Høyland (2011) have written about the establishment and the ideational framework of the EMU in their research:

> "While the Maastricht Treaty set out the plan for EMU, the idea of an economic and monetary union was discussed during the negotiations on the Treaty of Rome back in 1956. Two precursors to the Maastricht plan were important for the preparation and design of EMU. The first was the Werner Report of 1971, which proposed that EMU be introduced by 1980. The second precursor was the European Monetary System (EMS), set up in 1979 (pp. 249)".

As stated, implications for the union were already in the air. However, the actual step taken towards forming this sort of a union was based on a European Council meeting in 1989, when the following was decided and set in stone:

- "Stage I in the implementation of EMU would begin with the removal of all obstacles to capital movements between member states on 1 July 1990
- Stage II would be marked by the establishment of the European Monetary Institute on 1 January 1994
- Stage III would commence on 1 January 1999 with the transfer of responsibility for monetary policy to the European Central Bank (Issing, 2008, pp. 11)".

Stage three was also the final step, after which a member state would join the currency union and the Euro. The established EMU consists of the 19 Eurozone countries in addition to the eight remaining non-euro countries in the European Union (EU). It is therefore noteworthy that some EU members are not part of the Eurozone and common currency and thus, those countries retain their economic independence and monetary policies. Regardless, even the attainment of stage three marked a historic achievement in world politics and fundamentally changed both the European economic policy creation and the way these policies are conducted. The reasons behind establishing the EMU are multiple. Briefly stated, the reasons were both political and economic, as there was a considerable desire for a closer European integration after the Cold War and to curtail the hegemony of the United States. Furthermore, the common currency would, to name a few effects eliminate the need for exchanging currency within member states, alleviate price competition and ensure better labor mobility (Glencross, 2013). What is the Economic and Monetary Union then? What does the union entail and what does it mean? To put it simply, the main agenda for the EMU is to strengthen the collaboration and integration between European states. The official web page of The European Union (2016) summarizes the EMU as follows;

“In practical terms, EMU means:

- Coordination of economic policy-making between Member States
- Coordination of fiscal policies, notably through limits on government debt and deficit
- An independent monetary policy run by the European Central Bank (ECB)
- Single rules and supervision of financial Institutions within the euro area
- The single currency and the euro area (What Is the Economic and Monetary Union? (EMU), 2016)”.

Thus, we return to the EMU being an umbrella term, as there is no single institution under it. Rather, the responsibilities of conducting economic policy are divided among the institutions. These include the European Central Bank, The European Parliament, The European Commission (EC), the Council of the EU, the European Council, the Eurogroup and of course the member states of the European Union (What Is the Economic and Monetary Union? (EMU), 2016).

1.2 European Central Bank

The European Central Bank is, as the name suggests, a central bank for the 19 European Union countries that, at the time of the writing, have adopted the euro as their currency. It is a relatively young central bank, established in 1998 as part of “stage three” of the implementation of the EMU. It is a completely independent central bank that implements the monetary policy of the Eurozone as well as conducts banking supervision. As a central bank however, the ECB is different from other national central banks because it is a supranational institution whereas most central banks are national institutions. Therefore, the legality of the ECB was of utmost importance upon its establishment. According to Issing (2008):

> “The legal basis for monetary policy is usually laid down by national legislation. In the case of the ECB, as a European, supranational institution, an international agreement was needed. The provisions of European monetary union and the ECB are contained in the Treaty on European Union 1 (Articles 105ff.), with the further rules on the Statute of the European System of Central Banks and the European Central Bank being set out in a Protocol that forms an integral part of the Treaty (pp. 52)”.

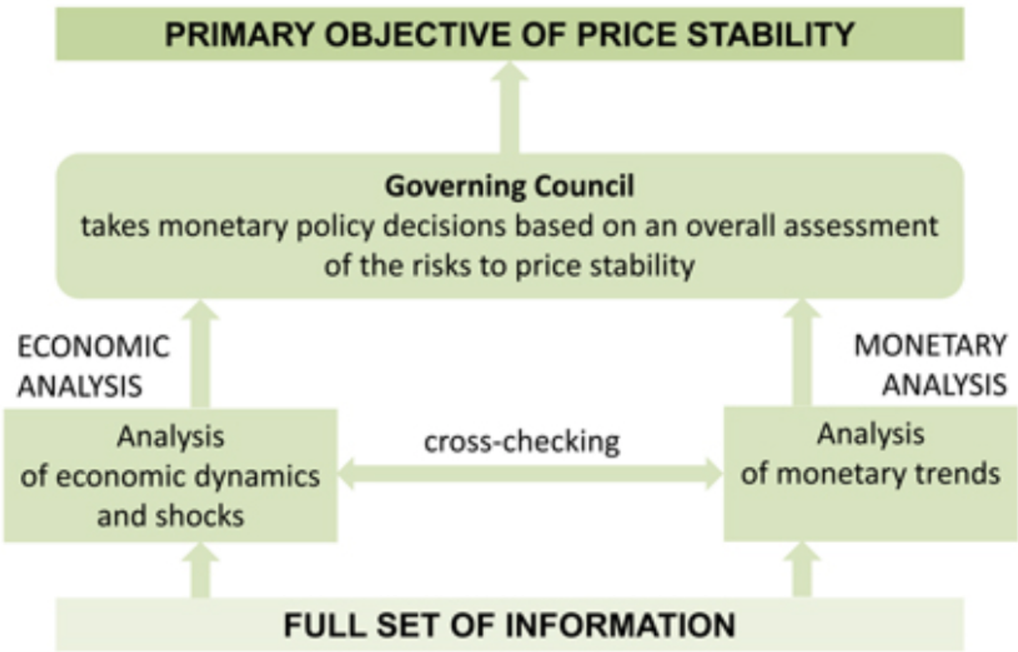
Thus, this means that the ECB is a governing body established by this Treaty. Therefore, it needs to abide by the Treaty rules and is accountable to the EU member states. An extensive framework is outlined in the Treaty, where it is stated that their decisions are open for criticism by the public. This is also the reason why the ECB aims to act as transparently as possible via press conferences and releases, monthly bulletins and calendars. The publications are written in all official Community languages to have as wide a public as possible (Scheller & European Central Bank, 2004).

The ECB has one primary objective and that is to maintain price stability, thus additionally maintaining the inflation rate and safeguarding the value of the euro. Price stability is defined by The Governing Council of the ECB as “a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%” and added that price stability ”was to be maintained over the medium term”. Medium term as a concept has varying definitions depending on the institution as well as according to the current economic situation, and it can be anything from two to ten years of maturity. (Scheller, 2004, pp. 80).

The agenda for the ECB on maintaining price stability has been assigned for two simple reasons:

1. “Research has shown that the most effective way to improve living standards of citizens and advance economic growth is monetary policy and maintaining price stability.
2. Past studies have also shown that monetary policy can only influence the price level in the economy. Thus, price stability is the only feasible objective for the single monetary policy over the medium term. By contrast, apart from the positive impact of price stability, monetary policy has no scope for exerting any lasting influence on real variables (Scheller, 2004, pp. 45)”.

Thus, the only reasonable agenda for the ECB is to aim for a monetary policy that promotes price stability to ensure a stable economic environment. How does the ECB maintain price stability and assess related risks? They follow the so-called two pillars that are economic analysis and monetary analysis.



Picture 1 Stability Oriented Monetary Policy of the ECB (European Central Bank, 2020d)

Economic analysis focuses on the real economy, financial activity and the short-term variants of price development. It conducts macroeconomic projections and analyses asset prices and financial yields. The analysis assesses the future developments based on supply and demand and the interactions between different participants in the financial markets. **Monetary analysis** however, looks at the long-term development and it appraises the future implications of credit and monetary developments. In addition, it utilises highly detailed econometric models created by both academics and economists (European Central Bank, 2020d). Other ways for the ECB to maintain price stability in the EMU is to act as a supervisory authority. This is when the institutional and legislative framework of Single Supervisory Mechanism (SSM) takes place. Established in 2013 following the Euro crisis, it forms the first pillar of the European banking union and is a step towards a more integrated Europe. The most important goals of the SSM are to ensure financial stability, the safety of the banking system and consistent supervision. It is meant to function as a supervisory mechanism that has authority over all eurozone banks. However, the authority is limited to the banking sector and thus, the influence is somewhat limited as it leaves out other financial actors, such as insurance companies (European Central Bank, 2020f).

The SSM conducts supervisory activities by stress tests on larger banks that they are supervising directly. Should deficiencies arise, the institution will implement an early intervention. However, if it is too late for an intervention, the responsibility will be transferred to the Single Resolution Mechanism (SRM), another addition to the banking union of EMU. The SRM was established after the SSM in 2014, to respond to discovered failing banking institutions. It is the second pillar of the banking union of the EU and the main purpose of it is to prevent the costs of failing banks from falling upon the economy or taxpayers. They handle restructuring and covering bailout funds from the Single Resolution Fund (SRF), which, in turn is financed by banking institutions. All European Union members are part of the SRM, yet the provisions are only applied to Member States participating in the SSM (European Central Bank, 2020c).

In conclusion, the European Central Bank is an independent institution that maintains the price stability of the Eurozone by conducting monetary policy and using various conventional and unconventional tools. It also communicates regularly with the public regarding the monetary policy decisions made by the Governing Council.

1.3 Research Questions

What does this study contribute to the field of academia and global political economy? As the society is living in the midst of a pandemic and an economic crisis, this study is very topical. I feel it is important to inspect the path the European Central Bank is taking with a shift in monetary policy, the Pandemic Emergency Purchase Program (PEPP) and the encouragement of an ever-increasing debt ratio. Furthermore, it is important to take note of the central bankers' views and on what might be wrong with the system and their growing influence on the global economy. It seems that currently, central bankers have immense influence on market actors and are thus able to influence the markets in which these actors operate in. The speeches and word choices of central bankers are carefully watched as they are able to make a difference. There are some widely known examples of a central bankers' speech that has had a tremendous impact on the credibility of the current economic situation, namely Mario Draghi's "Whatever It Takes"- speech. Thus, it also bears significance how the leaders have commented on the ongoing change and structural deficiencies.

The unconventional measures of quantitative easing of the European Central Bank are also of particular interest since the long standing argument has been that national governments should not take on excessive amounts of debt, whereas some academics argue that a country with a central bank cannot have a sovereign debt crisis as they can always print more money. Mayes et al. (2019) have discussed this debate;

> "Some say that a country with its own central bank can never have a sovereign debt crisis because it can print money to pay any bills. Others argue that if a country raised its inflation target, it could wipe out the real value of its public debt and alleviate its fiscal burden. Others still make the point that central banks can never go legally insolvent, so when fiscal authorities are on the verge of sovereign insolvency, it is time for the central bank to step up. Finally, in the context of the Eurosystem, some proposed that the European Central Bank (ECB) could buy and then forgive the debt of the periphery countries, becoming a vehicle for fiscal transfers within the

currency union (Mayes et al., 2019, Part II: Can the Central Bank Alleviate Fiscal Burdens?)".

Varying views of this topic are numerous in academia, yet the approved stimulus packages and the quantitative easing that central banks are currently conducting are unprecedented in size and because of that, it is impossible to draw definite conclusions thus far on the long-term effects. That being said, when researching the shift on the monetary policy of the ECB, it is equally important to study how the different leaders convey their messages on the transition and their views on the economy. Thus, the research questions for this thesis is attempting to answer what are the problems or flaws that have been identified within the EMU and how they might be repaired. Second, what are the president's implications and effect on influencing the economy? Furthermore, how has the shift of the ECB monetary policy from hawks to doves happened over the years and have the implemented measures been effective or not?

In essence, I argue that by transitioning to an expansionary monetary policy earlier than originally happened, some of the more severe economic impacts of the Euro crisis could have been prevented and it would not have led to a lost decade for the growth of the Eurozone. Additionally, I argue that the central bankers' implications for molding our future is enormous as it is clear that market actors react to their statements. I will be conducting this by researching the monetary policy shift and when it happened in addition to analyzing the speeches of three different ECB presidents.

1.3.1 Overall Aim of the Thesis

The overall aim of this thesis is to provide information and a reply to the further stated arguments with the underlying research questions. This topic and the role of central banks and their presidents in modifying the global economy are topical of nature and important with regards to the future. It is vital to understand the role of central bankers and the language behind their statements as they are able to shape the market expectations and the public opinions. Furthermore, since the global financial crisis, their roles have been heightened to be looked upon in level with the political leaders, or even more so. A fitting example of this is during the Euro crisis when the faith in the common currency was low and the Eurozone was on the brink of collapse. Political leaders and heads of nations were unable to calm down the financial markets by stating that everything would be done to preserve the Euro. However, when Draghi, the President of the European Central Bank uttered the calming words of "whatever it takes", promising to do everything in the bank's power to handle the crisis, the market actors knew the promise was credible (Brunnermaier et al., 2016). Additionally, during the global financial crisis, the Federal Reserve (FED) had saved the United States when the government could not act as decisively and swiftly as the central bank. The central bank was able to inject liquidity via monetary policy. The then chairman of the FED, Ben Bernanke has commented on the central bank's power to act when governments are unable to:

> "History teaches us that government engagement in times of severe financial crisis often arrives late, usually at a point at which most financial institutions are insolvent or nearly so. Waiting too long to act has usually led to much greater direct costs of the intervention itself and, more importantly, magnified the painful effects of financial turmoil on households and businesses (Hetzel, 2014, pp. 282)".

Therefore, a central bank influence can exceed the power of the government to act in a crisis with unconventional monetary policies. Thus, at least in theory, monetary policy can shift market expectations about future and hence, current asset values. This is an important theme throughout the development of this thesis; the central bank and their presidents' influence on the current global economy.

2 Background

This chapter will deal with the different theories utilized for this study and previous academic literature regarding this thesis. Thus, in a way this chapter is a literature review as well. The chapter will demonstrate works by academics who have studied the topics of the Economic and Monetary Union of Europe, the transformation of the economic constitution of Europe, the European Central Bank and its monetary policies extensively.

We will first focus on the economic constitution of the EMU and its principles: what created it, how it has transformed pre and post- the Euro crisis and how this affected the European Central Bank and its functions. Furthermore, we will briefly discuss the article 123, as well as 125, or the so-called "no-bailout clause" of the EMU (Art. 123 TFEU; Art. 125 TFEU) and different ways to interpret the articles, depending on one's agenda. Moreover, we will then continue on to the tightening of the Stability and Growth Pact and its functions. We will look at how the "first" version of the SGP initially failed in its objectives and what has been done to tighten the conditions. These have been born in the form of the European Semester and a set of regulations called the Six-Pack and the Two-Pack. To conclude the section on EMU, we will study the European Stability Mechanism, which is the latest institution on its roadmap. The other half of this chapter will be devoted to the European Central Bank actions during the Euro crisis and the years after, its monetary policies and the criticism regarding its actions.

2.1 Economic Constitution of the EMU and its principles

Before delving into the economic constitution of the EMU, it is necessary to briefly define what is meant by it. Basically, it is a set of established rules to constrain the conduct of economic agents that are relevant to the economy. Additionally, it refers to a set of legal rules that are constitutive or conducive to an economic system (Streit & Mussler, 1995). At the time of the founding of the EMU, its principles and rules were thought of as well founded and sound. According to the then President of the ECB, Willem F. Duisenberg (2003):

> "Throughout the process of drafting the Constitution, the ECB has consistently advocated that the economic constitution of the EU – the basic set of rules and provisions for EMU as laid down in the Maastricht Treaty – is sound both in terms of the objectives set and the allocation of responsibilities between different actors and levels of government (Duisenberg, 2003)".

An important ideational foundation for the economic constitution for Europe dates back to 1957 with the Treaty of Rome that formed the European Economic Community (EEC). This Treaty formally established the EEC in addition to a common market between members to move goods, services, capital and people freely. The Treaty of Rome is also considered to be one of the most important steps taken towards the creation of the European Union and it symbolises the road of evolving European unity. The aims of the Treaty are listed in 'The Oxford Handbook of the European Union':

> "The Treaty establishing the EEC, by contrast, unquestionably has impinged upon European history in a decisive manner. A hugely complex document, its objectives were clearly stated in its preamble and its opening articles. It would "lay the foundations of an ever closer union among the peoples of Europe." More specifically, by "establishing a common market" and "progressively approximating" its member states' economic policies, the Community would "promote" the "harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the states belonging to it (Jones et al., 2012, pp. 103)".

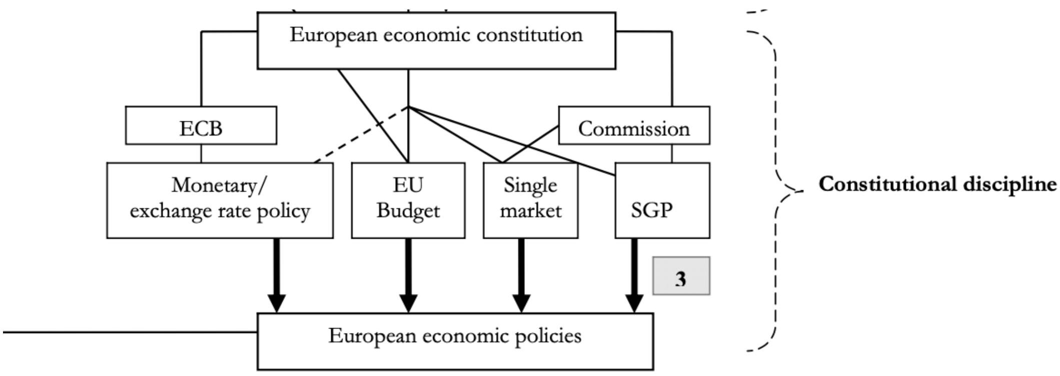
On that account, this Treaty established the EEC with a set of objectives. To further inspect the economic constitution in a European sense, it is necessary to briefly mention the German concept of ordoliberalism. This school of thought draws its central focus from governments regulating the markets to create a perfectly competitive market, theoretically. Additionally, ordoliberalism places emphasis on preventing monopolies in the public or private sector. An example of this view at the European level can be seen in the European competition law preventing the formation of cartels or monopolies that damage the public interest while simultaneously rejecting expansionary and monetary policy use in stabilising business cycles in a recession (Dullien & Guérot, 2012). The Ordoliberal School views democracy and the rule of law as essential to a working social market economy. Importantly, these work in synergy with a stable currency and free competition. A great deal of similarities can be observed between ordoliberalism and Treaties of the European Union institutions. Furthermore, since it was Alfred-Müller Armack who was the German Federation representative of the Ordoliberal school of thought during the Treaty of Rome as the chief negotiator, his views will have surely had an impact. As such, German ideologies have somewhat influenced the economic constitution of EMU (Joerges, 2015).

New constitutionalism is another concept that has been connected with the supranational institutions, such as the EMU, EU and the ECB. Being closely tied with classical neoliberalism, new constitutionalism promotes global economic governance instead of these policies conducted by national or regional actors and thus, in a way creating a global constitutional framework. The approach gained prominence in the latter half of the last century as supranational institutions were established and more relied upon. Additionally, the concept is the result of further strengthened globalization with the added interconnectedness of the world. This has led to the growing need for global governance and the further increased capacities for the EMU and the ECB to supervise the actions of national governments. The principles of new constitutionalism are imperative in order to grasp the entirety of the growing internationalization of supranational institutions as it limits the powers of state-level governance to give way for supervision and regulation at the international level (Gill & Cutler, 2014; Hirschl, 2004).

Despite these clarifications of concepts, the economic constitution of Europe is not a simple matter to define as it does not rely on a sole approach, nor has it been unchanged since its inception and does not consist of a single institution or a document. As Laurent & Le Cacheux state (2006), the EMU does not have a legally defined constitution. Rather, it is a collection of multi-leveled and complex Treaties. Many academics have had their say of criticism or have expressed doubts regarding this complexity. For example, Snyder (1998) has a large number of questions regarding the EMU as he feels it includes an unfinished constitution lacking legally conceptual clarity. Furthermore, even before its inception, the EMU received a great deal of comments, opposition and it involved high stakes for further European integration. Snyder also claims that EMU is a test for some of the most basic constitutional principles, such as the single institutional framework, division of powers, subsidiarity and social cohesion (Snyder, 1998). Marsh (2011) discusses this same predicament in his book 'The Euro: The Battle for the New Global Currency' and he mentions that these criticisms, arguments and warnings were mostly ignored and left out of the public eye. Even after the birth of the ECB in 1998, "the rising current account deficits and lowered competitiveness in the peripheral countries of Europe" were common knowledge among the heads of European institutions, yet they were not discussed (Marsh, 2011, pp. 11). Thus, the whole so-called European project has been a test to see how well and completely is it possible to integrate different countries to joint decision making. The foundations and the legal framework has been possible to create before inception, yet with many institutions the arising problems have been solved upon appearance. This was evident during the global financial crisis and the Euro crisis as the EMU needed further restructuring regarding the financial sector.

As the economic constitution is not clear-cut and up for debate, Laurent & Le Cacheux (2006) have published an extensive article titled 'Integrity and Efficiency in the EU: The Case Against the European Economic Constitution' on what kind of framework would the EMU need. They discuss the topic at the European level in addition to democracy, Federalism and the future for the European Union. The economic constitution is also explored and what it means in their perspectives:

> "As for its practical organization, the European economic constitution is currently constituted by four pillars, hierarchically ranked. The first is the ECB, which *de facto* manages the Euro so as to achieve the primary objective of price stability. The second is the Stability and Growth pact, which is a tool for achieving the primary objective by ensuring that fiscal imbalance does not threaten monetary stability. The third is the Single market, which is the common law of all EU member states laid down by the original constitution (cf. supra). The fourth is the EU budget, of negligible macroeconomic size but symbolically and structurally important (Laurent & Le Cacheux, 2006, pp. 20)".



Picture 2 The Outlook for the European economic constitution (Laurent & Le Cacheux, 2006)

This brief summary provides a clear structure with which to view European economic constitution and the interconnectedness of its components. Out of these components the ECB is a major actor in defining the economic policies of Europe. Yet, it must work according to the rules and limitations it has been set.

2.1.1 Transformation of the EMU post-Euro crisis

How has the EMU fared since its initiation, amongst crises and how has it changed? First, it is natural that an organization or an institution will transform over time as the environment around it transforms as well. Hence, it could be stated that the years since the birth of EMU until the Global Financial Crisis was a relative success. Regardless of the opposition and criticism the EMU received with relation to the common currency and the integration of Europe. Hence, it was not until the outbreak of the crisis in 2007 and the subsequent Euro crisis (also known as the European debt crisis or the Eurozone crisis) when difficult matters began to rise on the surface, as the EMU countries were faced with their first problems of this magnitude. Thus, the EMU and the institutions within have had to transform to respond adequately. How has this transformation happened and what implications does it have on the future of EMU?

To realize this, it is necessary to look at the Euro crisis briefly as it was a major stress test for the EMU. What led to the Euro crisis and which actions took place within the EMU? It is important to remember that the EMU placed heavy emphasis on the fiscal stability of its member states - namely with the Stability and Growth Pact (SGP). This pact obligated its members to maintain fiscal stability by adhering to the rules of not letting the budget deficit of a state exceed 3% of GDP and maintaining its national debt below 60% of GDP (Hix & Høyland, 2011, pp. 266). Regardless of the SGP, some countries did not honor the commitment (namely, Germany and France) which eventually led to imbalances that were further exacerbated by slower than expected economic growth and the lack of productivity gains. All these factors resulted in a weak Eurozone when faced with a downturn (Glencross, 2013). Ultimately, this arrived when several large investment banks collapsed in the United States in 2008. This led to a full-blown crisis and quickly exposed European banking institutions to defaults as well and since the Eurozone had not prepared for this, it had no swift means of rescuing banks. Thus, it was necessary to provide bailouts to take on the debt and prevent insolvency. This responsibility was left to the EMU institutions and the national governments. To put simply, the Eurozone countries needed to borrow money from other countries or default on their debts. These types of fears were further intensified by Greece and their discovered budget deficits in 2009. Moreover, this resulted in fears of a financial contagion, a Greek exit and the possible collapse of the Euro (Bastasin, 2015, pp. 13-14; Marsh, 2011, pp. 4). It is always difficult or even impossible to predict future crises, yet the Eurozone was clearly inadequately equipped for one because of inherent flaws in its system. Additionally, these are all risks associated with an incomplete economic union and a common currency. As Glencross (2013) writes; "these developments illustrate the risk of having a shared currency without a banking union to coordinate the regulation of banks (e.g. how they make loans) and their rescue in crisis moments (pp. 7)". The Eurozone policy makers had to find ways to provide support to countries in distress and keep the union intact. The unprecedented problems that the Eurozone was facing led to many policy changes and the establishment of new institutions and frameworks, such as the European Financial Stability Facility (EFSF), the European Stability Mechanism (ESM) and Fiscal Compact to battle future crises.

2.1.2 Reinterpretation of the Article 125 ”no-bailout” clause and Article 123

The severe crisis the Eurozone experienced led to decisions and structural reforms for the EMU institutions in addition to national government's fiscal policies. Academics, such as Stiglitz (2016) have criticised these in his book 'The Euro and its Threat to the Future of Europe', where he argues that, for example the austerity measures implemented on Greece were more counterproductive and led the country into a deeper recession and higher unemployment numbers. He also states that on a number of occasions austerity measures do not lead to increased demand and growth (Stiglitz, 2017). How did the EMU institutions then end up surviving through the crisis? Large bailout packages were implemented regardless of the "no-bailout" clause and austerity measures and reforms of debt-ridden countries were demanded. This clause is highly debated as Article 125 of the Lisbon Treaty (2007) states explicitly that:

> "**The Union** shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. **A Member State** shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project (European Union Law, 2016a)".

Thus, no Eurozone bailout of countries should ever happen and heavily indebted countries should not have their debts paid by another country. Furthermore, the Stability and Growth Pact was designed specifically to prevent deficits and debts of this magnitude from forming. Nonetheless, bailouts have been implemented against these EU Treaties with varying agreements on their legality. Most often, they have been implemented with conditions imposed on the target country that have involved economic and fiscal reforms in addition to tax increases, public spending cuts and public pay cuts with the central tenet of involving draconian measures (Glencross, 2013). Additionally, they have been met with public opposition, protests and have raised political irritation at government level, especially among Northern European member states. They are said to be in direct violation of the "no bail-out" clause and implied that the richer countries are paying for the incompetence of the poorer countries. Moreover, it has been criticised that the bailout packages are effectively useless, as they do not repair the underlying problems; the solvency and debt management difficulties of the banks (Korkman, 2013, pp. 97).

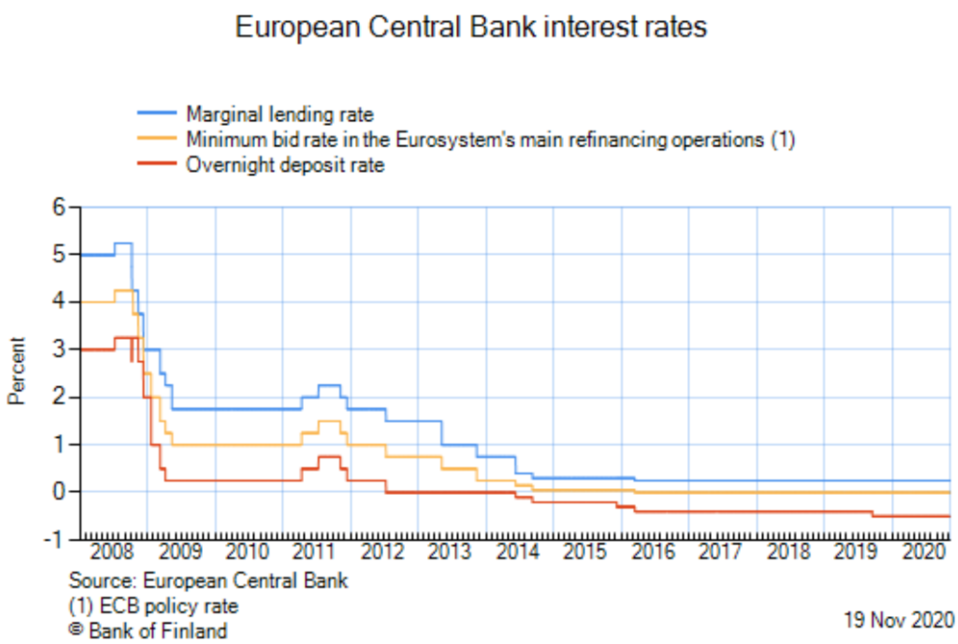
Another source of concern and discussion has been the interpretation of Article 123, which prohibits the direct purchase of government debt instruments. The main thing to note here is that the article prohibits "only" the direct purchase of said instruments (European Union Law, 2016b). In other words, the article does not allow the ECB to purchase instruments from the primary markets. Therefore, the ECB has reinterpreted this article in a way that allowed it to purchase government bonds on the secondary market. This has been contested by the German Federation Constitutional Court (GFCC), yet has been ruled in favor of the ECB by the European Court of Justice (ECJ), provided that the purchases do not lessen the Member States incentives to implement prudent fiscal policies, or lead to a moral hazard (Payandeh, 2017, pp. 400-403). This debate has been active in the OMT programme of the ECB in addition to the more present Pandemic Emergency Purchase Programme (PEPP).

Finally, the central lesson that can be learned from the Euro crisis and the implemented bailout packages is that in order to preserve the common currency, the institutions of EMU were forced to reinterpret and/or violate the constitutional principles market discipline and articles 123 and 125 listed in the Treaty on the Functioning of the European Union (TFEU). These principles were meant to ensure discipline where the financial markets would punish the countries that are not in line with the required fiscal policies. However, due to the outbreak of the Euro crisis these principles were given up as a result of an inadequate institutional framework and the lack of fiscal discipline. The bailout packages prevented unnecessary defaults by member states albeit requiring the circumvention of the no bailout-clause (Brunnermaier et al., 2016; Marsh, 2011). It is certain that the Euro-area heads of state in addition to the EMU institutions were in difficult positions, yet there is a chance they did not present the best outcomes. According to Brunnermaier et al. (2016):

> "Euro-area governments and their leaders were thus faced with an unpleasant choice in which some sort of innovation was required: either they reneged on the no-bailout clause, or they created new instruments, or they called for external support, which could only come from the IMF. But there was considerable opposition to the latter, most strikingly in France but also initially in Germany, until Chancellor Merkel changed her mind (pp. 327)".

2.1.3 How this affected the European Central Bank

Because of the unexpected outbreak of the Euro crisis, the European Central Bank was forced to act in an unconventional manner as well, partly under political pressure albeit being an independent central bank and actor. The most important mission of the ECB is to maintain price stability by conducting monetary policy and thus, after the crisis hit, that is exactly what the ECB did as one of their first actions.



Picture 3 ECB interest rates 2008-2020 (https://www.suomenpankki.fi/en/Statistics/interest-rates/charts/korot_kuviot/ekp_korot_kk_chrt_en/)

As can be observed from the chart, the ECB started lowering its interest rates at the end of the year 2008, down systematically from four percent to one percent until March 2011. After which the forecasts for the economy looked more optimistic and the bank raised the interest rates twice until realising that the economy was notting getting better (Suomen Pankki Statistics, 2020; Korkman, 2013, pp. 98). The interest rates have not been raised since. During the crisis, common consensus was that the ECB should step up in a similar manner as other central banks outside Europe, to aid European countries in need. This is, in a way, contradictory as the steps the ECB took were criticised simultaneously. Bastasin (2015) notes in his book ‘Saving Europe: Anatomy of a Dream’:

> “Coincidentally, at this juncture, a major, through hidden, clash took place between the powers of governments and the role of the only supranational institution within the euro area, the European Central Bank. The purchase of government bonds of the ailing countries, a step that was indispensable for saving the euro area as a whole, was left entirely on the shoulders of the supranational ECB rather than being activated through the common fiscal resources of the member states. (pp. 464)”.

It seemed that Europe was being torn apart by different opinions on how to solve the crisis, yet the most important goal for the European Union was closer integration. The European Central Bank was forced to clash against the crisis as well as various European nations. Their decision to start purchasing bonds of selected eurozone countries resulted in suspicions of ECB losing their independence and succumbing to political pressures. The then President of the ECB, Jean-Claude Trichet stated that ECB actions are different from the Fed or the Bank of England as the bond purchases conducted under the Securities Markets Programme are sterilized in response to fears of inflation (The Economist, 2010). Sterilization, to put simply, means that the central bank is not expanding its balance sheet upon purchase of bonds, thus technically it is not quantitative easing. Rather, they are taking money from elsewhere. In this case, the ECB would offer commercial banks interest rates to deposit money at their facilities. As the Securities Market Programme (SMP) was launched, it marked a new path for the ECB and, in a way, it was forced to act in such a way. This can be seen as a precursor to the subsequent OMT programme and quantitative easing.

2.2 Tightening of the Stability and Growth Pact

This section shall cover the phases that the EMU took in order to further strengthen the Stability and Growth Pact and will cover the additional framework of European Semester, including the Six Pack and Two Pack- packages. Furthermore, a brief section on the European Stability Mechanism, its processes and criticism will be covered.

As mentioned earlier, the Stability and Growth Pact is a set of rules established to prevent unsound fiscal policies of member states. It was created in 1997 and reforms have been taking place since its inception. The SGP has faced a great deal of criticism due to its ineffectiveness and the lack of measures to "punish" member states that are not in line with the requirements of the pact. Evidence of this surfaced already in the beginning of the 2000s, when a revision was needed because of:

> "difficulties incurred by various countries in their compliance with the Stability and Growth Pact rules. By 2002 the two biggest EMU Members (Germany and France) were already unable to set their deficit to GDP under the ceiling of 3% and their

> cyclically adjusted negative balance was up to 3.5 and 3.8% respectively (Padoa-Schioppa, 2006, pp. 6)".

Fabbrini (2014) also notes in his paper 'Euro Crisis and the Constitutional Disorder of the European Union' regarding the rules of the SGP not being followed; "however, although expected to be respected, those statutory rules showed not to be sufficiently binding. Indeed, in 2003, Germany and France did not keep their budgetary parameters (in particular the one regarding the deficit) within the prescribed limits (pp. 10)". Additionally, these countries have been taken to the European Court of Justice for the breach of the pact, yet have not been fined or sanctioned. Joerges has studied (2004) the European Economic Constitution as well and has written on the inability of the European Court of Justice:

> "Could the Court have done more? Should it have indicated that the restraints that the Stability Pact imposes on democratically legitimized governments should be reconsidered in the light of Europe's current efforts to address its democracy deficit (pp. 24)"?

It begs to question why there have not been any sanctions for these breaches and thus, these reasons have been the logic behind why the Stability and Growth Pact has experienced multiple reforms over its existence. Namely, reforms over the preventive arm and corrective arm that were implemented in consecutive years of 1998 and 1999. The preventive arm aims to make sure that member states' fiscal planning involves sound budgetary policies over the medium term while also acknowledging the economic cycle fluctuations. Whereas the agenda for the corrective arm is to confirm that Member States follow adequate policies to correct excessive deficits. This is completed by implementing the Excessive Deficit Procedure, or more commonly referred to as EDP (Stability and Growth Pact, 2016).

Jean-Claude Trichet, the former President of the ECB mentioned in one of his speeches in early 2009 that the Stability and Growth Pact forms an integral part of EMU as the most important pillar in the economic union:

> "The fiscal policies of the Member States should promote the smooth functioning of Europe's Economic and Monetary Union. The Stability and Growth Pact is the instrument to guarantee this. The Pact is the most important pillar in the economic union. It supports the monetary union (Ten years of the euro: successes and challenges)."

Therefore, the smooth functioning and strict adherence to the rules of the SGP is essential to EMU. This is why it has been strengthened and reformed as deficiencies have been discovered.

2.2.1 European Semester (Six Pack and Two Pack)

As the Euro crisis revealed structural weaknesses in the economic governance of the EU, the union responded by implementing another framework to tackle the crisis in order to enforce its governance and to alleviate a return to economic growth. The first one of these measures was titled the European Semester, which strives for national policy coordination between member states. It was meant to build on and develop the processes already existing in the EU, namely its fiscal, economic, employment and social policy coordination. The European Semester was intended to fortify the governance of the EU, in addition to the subsequent Six-Pack, Two-Pack and Fiscal Compact, implemented in the years after. The main idea behind the European Semester is to set annual priorities which to follow the next year. This typically starts in November by the European Council set priorities and ends in October the next year upon the submission of draft budgetary plans by the national governments, adhering to the recommendations of the Council (Verdun & Zeitlin, 2017, p. 138; The European Semester Explained, 2020). The term itself encompasses different parts, or pillars. Out of these pillars the 'Six Pack' and 'Two Pack' were introduced in 2011 and 2013, respectively. These are known as legislative packages and are meant to complement and strengthen the Stability and Growth Pact and the regulations are focused on improved macroeconomic surveillance. "Each consisting of legislative proposals to tighten further the policy coordination required by both the European Semester and the Stability and Growth Pact (Bastasin, 2015, pp. 347)".

The Six Pack introduced regulations with the aim of reducing public debt and a new surveillance tool, the macroeconomic imbalance procedure. The Two Pack, on the other hand, requires the EU member states to present budgetary plans for the following year as discussed earlier. This policy ensures that the European Commission is able to provide guidance before the member states adopt new national budgets (The European Semester Explained, 2020). All the aforementioned reforms are designed to address the macroeconomic imbalances of the EMU in addition to providing tighter fiscal surveillance over member states. However, these improvements have also been met with criticism due to disappointing results and the lack of effectiveness on the part of implementing the recommendations. According to Efstathiou & Wulff (2018):

> "In terms of the implications for EU economic governance, our results cast serious doubt on the effectiveness of the European Semester and suggest that policymakers should reconsider it. We consider the low effectiveness to be a result of the fundamental dilemma facing the euro area in particular. National policies matter hugely for all euro-area countries, justifying mechanisms for policy coordination. But national policies are put in place by national authorities and parliaments that do not want their sovereignty to be diminished (pp. 14)."

2.2.2 European Stability Mechanism

In the aftermath of the Euro crisis, the EMU had a strong drive to reform the Eurozone should there be another shock in the future. This led to the creation of two funding/loan programs called European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). These programs together with the International Monetary Fund (IMF) provided loans to Eurozone countries. However, they were only temporary measures due to the urgency of the crisis and the need for a legal basis in the European Union law. Therefore, in order to establish a permanent organization, a Treaty was needed.

The Treaty Establishing the European Stability Mechanism followed in the years between 2011-2012. This Treaty described in detail the way the ESM would operate and function. It is an intergovernmental organization established by the Eurozone countries that operates under public international law and is based in Luxembourg. The organization provides financial assistance to the member states and/or their national central banks that are experiencing external or internal financial difficulties. It was established to secure the financial stability of the Eurozone area and replaced the two previously mentioned funding programmes: the EFSF and EFSM. The organization has a maximum lending capacity of €500 billion and has had three lending programmes during its short span; Spain, Cyprus and Greece, which have all ended now (European Parliament, 2019). The ESM was one of the multiple additions or improvements that were designed, established and/or implemented due to the Euro crisis and the revelations behind structural deficiencies of the EMU. All 19 member states of the Eurozone are part of the organization and it is funded by the members. The ESM was a major improvement in the sense that the organization generates the possibility to aid countries in need, as Bastasin (2015) notes in his book:

> "The ESM was identified as the sole institution that could inject capital directly into the ailing banks, severing the sovereign-bank risk, once, as eurozone leaders said; an effective single supervisory mechanism is established involving the ECB on the basis of appropriate conditionality spelled out in a memorandum of understanding (pp. 417)".

However, this financial assistance is not "free money" for the ailing countries, They are able to apply for financial assistance which is termed as "cash-for-reform". Thus, countries received loans in exchange for economic reforms or, so called conditionality. A Memorandum of Understanding (MoU) dictates these conditions, which requires countries to adhere to strict monitoring in order to ensure compliance (Lending Toolkit | European Stability Mechanism, 2020). These conditionalities have irritated many, especially Southern European countries as they have found these policies to be intrusive (Bastasin, 2015). It has also been noted that the ESM, as an institution, is not as transparent and politically liable as many of the other institutions within the EMU framework. According to Bastasin (2015):

> "The main character of the ESM was its remarkable depoliticization with relatively little duties in terms of transparency and political accountability. The ESM board decided on the basis of a qualified majority corresponding to 80 percent of the votes. However, because Germany contributed 27,07 percent of the ESM financial

power, and consequently detained an equivalent share of vote rights, it was impossible to have a majority against Germany (pp. 419)".

2.3 ECB actions during Euro crisis and the years after

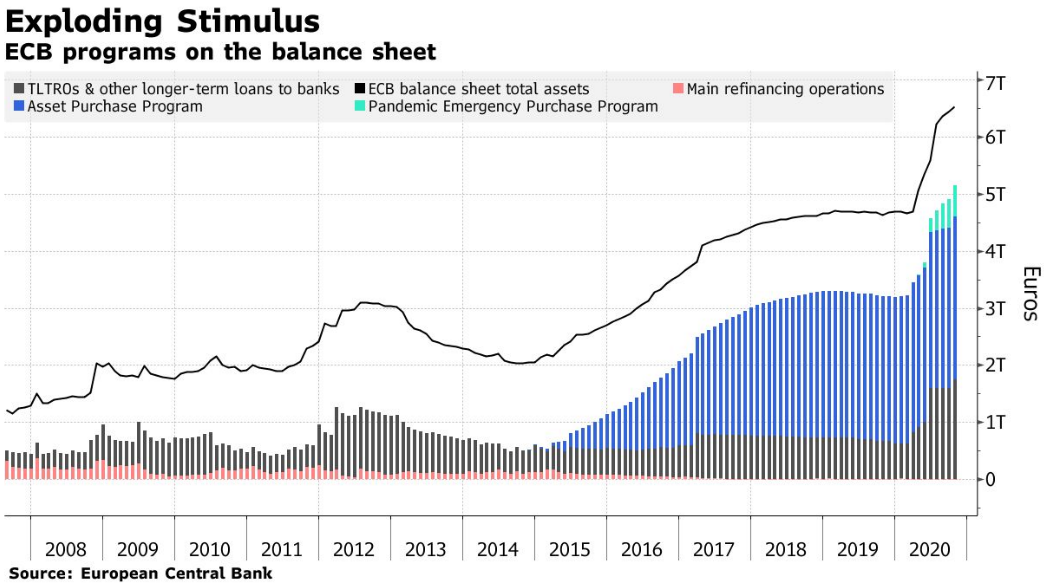
The journey of the ECB pre-Euro crisis has been commonly viewed as a success and celebration in addition to its monetary policy applauded. Brunnermaier et al. (2016) note that even critics were in favor of it; "the ECB entered the euro crisis basking in the glory of stability and success. The euro's tenth anniversary had been celebrated in Frankfurt with appropriate restraint and modesty but also with a sense of pride and accomplishment. Even some of its strongest critics saluted the single currency as a remarkable success (pp. 316)". However, this was before unexpected situations began to arise and as such, the tumultuous times since the global financial crisis started have not been easy for the new central bank. There has not been a long, stable period of economic growth and relative stability since the financial crisis that started in the US, despite the years between 2017-2019 when the Eurozone member states' economies experienced some slow growth. During the Euro crisis, the ECB made decisions and implemented unconventional measures that have not been based on popular votes or opinions, yet these changes have been highly needed. Brunnermeier et al. (2016) wrote about this change of the monetary policy decisions: "The ECB also changed - because it needed to change - its approach to monetary policy, lending (or issuing money) against a much wider range of securities through numerous asset purchase and lending programs. In a sense, it changed the European definition of money (pp. 314)".

How did the ECB then react to the Euro crisis? It is noteworthy that the crisis that stemmed initially from the US is one of the major crises in modern history and it is a hugely complex one with many factors that fall outside the parameter of the present study and therefore, will not be covered here. The spillover from the US was acknowledged in Europe already in 2007, yet no actions were taken. The ECB announced their SMP programme in 2010, which initially focused on purchasing Greek government bonds on the secondary market and so, in other words the ECB was buying off Greek debt. The SMP programme was later expanded to include Spain and Italy as well. Around the same time, in 2011, Jürgen Stark, a member of the Executive Board of the ECB resigned due to disagreements over the bond purchase programmes. In 2012 amidst a severe phase of the crisis, the newly appointed president of the ECB vowed to do whatever it takes to preserve the euro. Further on, it was revealed that this was a reference to a new bond purchase programme, Outright Monetary Transactions (OMT). Late 2012, the same year, a step towards a European banking union was taken as the creation of the Single Supervisory Mechanism (SSM) was announced. All these measures counted as the ECB transforming itself to better conduct its monetary policy. Something that was widely criticised, despite these announcements, was the fact that the ECB began its quantitative easing as late as 2015 whereas in comparison, the Fed started as early as 2008. Bastasin (2015) reflects that even though the ECB had infinite amount of financial resources, they did not want to take that path:

> “Within the bank there was no consensus at all for a so-called quantitative easing of that kind, especially one used for fiscal reasons. The only option considered was eventually to buy sovereign bonds without changing the quantity of money - that is, ‘sterilizing’ the money used to buy bonds by avoiding an increase in the monetary base as a result of the bond purchases. However, even for this less extreme option there was no unanimity within the bank’s governing council and executive board (pp. 185)”.

It is important to understand why the resistance within the ECB towards quantitative easing was as extensive as it was. Quantitative easing can be labelled as directly purchasing government bonds and thus, these purchases are inherently risky, should a government default on its debt and hence, creating losses for the central bank. However, it is also noteworthy that a central bank can create money and in this way operate with negative equity (Brunnermaier et al., 2016). Despite this resistance though, the ECB eventually initiated the QE program in 2015, which by many was deemed to be too late since the Euro crisis had already wounded the economy greatly. Since the inception though, the ECB has not been shy with regards to using quantitative easing as a stimulative measure to battle low inflation and slow economic growth (Brunnermaier et al., 2016, pp. 361). These large-scale purchases and quantitative easing has resulted in many debates over the years regarding the political independence of the ECB with regards to reacting to market or political pressures. This is stated in the Treaty and thus, in all formality, the ECB is an independent and an apolitical central bank. However, the extent of it has been questioned on multiple occasions and in every step of the way the notion has been rejected by its presidents.

Additionally, the ECB has implemented different bond purchase programmes over the years, which continue to this day. These have increased the balance sheet of the bank dramatically with the most recent titled the Pandemic Emergency Purchase Programme (PEPP) to provide support in battle against the COVID-19 pandemic.



Picture 4 Exploding Stimulus (Gordon, 2020)

Furthermore, bond purchases are the most widely used out of unconventional monetary policy tools. Regardless of how one might view the actions of the ECB in the recent decade, objectively speaking, it has accomplished a lot for the Eurozone. From maintaining price stability to providing liquidity support and devising different refinancing operations. As regards to the timing and legality of these actions, much is up for debate. All of the actions listed in this chapter have been taking place during one of the three president’s tenures. Naturally, the whole Governing Council votes on these decisions and the president does not make executive decisions. Regardless, the president is the one wielding the influence and the person whose opinions are heeded the most and therefore, his views and opinions are reflected in the decisions implemented. Stiglitz argues that central bankers wield enormous influence on the world economy that stretches past the monetary policy (2017). Dietsch et al. (2018) argue as well that it is obvious that central bankers also have agendas of their own, no matter how apolitical their institutions are;

> "it would be equally naive to presume that central bankers do not have interests of their own. To give but one illustration, in the wake of the sovereign-debt crisis in Europe, the ECB has been accused on several occasions of attempting to extend its influence without having the formal mandate to do so. Think of its role in the troika and its fixing of the bailout terms for Greece, for instance" (pp. 24).

2.4 Monetary Policies of the ECB

As mentioned, the ECB designs and implements monetary policy for its member states with the aim of keeping prices stable and thus, keeping the inflation rate close to, but just below 2 percent. To achieve this goal, it has various tools at its disposal, both conventional and unconventional. Conventional monetary policy is conducted during "normal" times whereas unconventional monetary policy tools are implemented in surprising situations, such as economic crises and/or global pandemics (European Central Bank, 2020a). In order to understand the monetary policy decisions the ECB has implemented over the last decade, the exploration of some of their tools is needed.

2.4.1 Open Market Operations (OMO)

Open-Market Operations, or, OMOs are a central bank monetary policy tool that have an enormously important role in adjusting the interest rates and managing the liquidity in a given area. It is a tool, in which central banks buy and sell bonds to regulate the money supply in the economy. Thus, the ECB uses open market operations to steer the interest rates of the Eurozone. There are four different types of OMOs in this toolbox, which differ according to their aim, regularity and procedure (European Central Bank, 2020a). These types include; main refinancing operations, longer-term refinancing operations, fine-tuning operations and structural operations. Out of these four, as the name suggests, the main refinancing operation is the most important one and regularly used, in normal times. As Issing states (2008) in his research:

> “The most important open-market operation is the weekly main refinancing operation. This is the principal means whereby the ECB supplies the banking system with central bank money. All eligible euro area credit institutions can take part in these operations, which are executed through tenders, against collateral. This procedure is a clear example of how the ECB’s single monetary policy is decided centrally and implemented in a decentralised manner (pp. 125)”.

The main refinancing operation is a weekly recurrence of liquidity provided reverse transactions and they comprise the majority of the ECB refinancing activities. These are executed according to a calendar published by the bank on their web pages. As mentioned, these are the main tools being implemented in normal times. However, after the Euro crisis, the role of main refinancing operations have somewhat diminished. A longer-term refinancing operation is much like the previous one, except that it has a longer maturity of three months as opposed to one week. This particular instrument is used to supply longer-term liquidity to the banking system (Issing, 2008). Fine tuning operations are, as the name suggests, aimed at “smoothing the effects on interest rates caused by unexpected liquidity fluctuations. They are primarily executed as reverse transactions, but may also take the form of foreign exchange swaps or the collection of fixed-term deposits (European Central Bank, 2020a)”. Fine-tuning operations are executed according to the demands of the market to manage liquidity, especially against the unexpected fluctuations of the market to stabilise the interest rate impacts. That leaves only the structural operations that are “executed whenever the ECB wishes to adjust the structural position of the Eurosystem vis-à-vis the financial sector (on a regular or non-regular basis). Structural operations in the form of reverse transactions and the issuance of debt instruments are carried out by the Eurosystem through standard tenders (European Central Bank, 2020a)”.

2.4.2 Quantitative Easing (QE) and Outright Monetary Transactions (OMT)

For almost a decade of being functional, the ECB was able to keep the Eurozone prices stable and inflation at a desirable level on average. As far as researchers, politicians and academics were concerned, the monetary policies were successful. Thus, it would seem that in “normal” circumstances, setting the interest rates and managing the liquidity of the banking system is sufficient enough. However, as the global financial crisis and the further continued Euro crisis were unexpected and by magnitude and nature unprecedented, different measures were required. This led to the need for unconventional, or non-standard monetary policies. These are policy tools that can be used in times of unpredictable situations which do not fall in line with standard measures. Hence, during these exceptional times, the ECB has moved on to expansionary, or stimulative monetary policy rather than contractionary. It is therefore a move toward a dovish stance and a somewhat Keynesian approach.

Quantitative Easing is a term that is referred to as an unconventional monetary policy tool and during tumultuous times, the most common of them. It could also be called a large-scale asset purchase program. To put it simply, it is a tool where the central bank "creates" money in order to buy securities, such as government bonds. As such, it is not the same as printing money, rather the central bank merely increases its balance sheet. The concept of QE is not new as it has been used by various central banks of sovereign states, such as the Bank of Japan or the US Federal Reserve System, to respond to crises. It has been viewed as an effective way to stimulate the economy in times of crises as it speeds up the recovery process. However, as a monetary policy tool, quantitative easing has earned criticism as well. Opponents of QE have criticised that it creates moral hazard for countries and leads to careless fiscal policies for governments. Depending on the country, QE could also lead to a domestic currency devaluation. There is also the risk of the QE not functioning as it was intended, as a stimulant as central banks cannot force commercial banks to increase their lending activities or borrowers to seek out loans. Thus, a central bank cannot directly stimulate supply and demand. Despite these risks and criticisms, the central banks of the world have resorted to quantitative easing and it seems they have also viewed it as the best possible solution currently. Even Brunnermeier et al. (2016) notes that the QE helped contain spillovers from the Greek debt crisis; "In any case, QE helped to contain potential spillover effects that might have emerged from the Grexit threat in the summer of 2015 (pp. 366)". The ECB has been utilizing QE as a monetary policy tool since 2015 and it was put forward by the then President of ECB, Mario Draghi.

Outright monetary transactions is a derivative of quantitative easing, Brunnermaier et al. (2016) describe it as such: "The promise of OMT involves the purchase of government debt in the secondary market if that country is in a program (pp. 124)". These purchases will only happen should certain conditions be met. The OMT program was the principal announcement after the famous speech by Mario Draghi, the then President of the ECB in 2012. The aim of the OMT program was to safeguard the appropriate monetary policy transmission to bring down interest rates on peripheral bonds and it was meant to eventually lead to capital gains and reduce costs of peripheral banks (Brunnermeier et al., 2016). One sometimes sees the terms quantitative easing and outright monetary transactions used synonymously, yet it is important to note that they are not the same thing. The ECB has emphasized that the bond purchases under the OMT program are sterilized and therefore do not add to the ECB balance sheet.

2.4.3 Criticisms regarding the ECB monetary policy

Over the course of the European Central Bank's short existence, it has been involved in a great deal of disputes, debates and clashes as has been already discussed. What has the ECB done to be involved in such criticism regarding their policies? The first thing to note is the primary objective of the monetary policies of the ECB, which is "to maintain price stability. This is the best contribution monetary policy can make to economic growth and job creation (European Central Bank, n.d.)". In other words, the ECB should act as the entity that drafts the monetary policy for the whole European Union and provides the tools for the national governments to implement these policies in their own sovereign countries. Additionally, the monetary policies should be left within central banks to draft and fiscal policies for the national governments. It is precisely this differentiation that has become somewhat blurred during the past economic crises. There are critics who argue that the current monetary policy by the ECB is by definition, overstepping into fiscal policy. It has been stated that this line was crossed when the central banks began purchasing government bonds on the secondary market. Such a criticism towards the Eurosystem securities purchases has stemmed especially from Germany, yet is it not uncommon in Finland either (Suvanto & Kontulainen, 2016, pp. 48).

Furthermore, the ECB attitude towards economic crises has shifted during the years. For many, the austerity measures directed at Greece within the Euro crisis are still in fresh memory. However, this austerity stance on debt and economy is long gone in 2020, replaced by expansionary monetary policy. Stimulus is the 'buzzword' at the moment for all central banks and a clear paradigm shift between these two crises is evident. A decade ago it was more than arduous to even visage a stimulus package as "saving" a country had not happened before after the establishment of the European Union and the ECB. Further indebtedness of Eurozone countries have sparked criticism of the ECB evolving into a sort of credit collection agencies for lender nations according to Stiglitz (2017, pp.117). Another topic of dispute has been the overall flawed structure of the ECB with their fairly narrow mandate focusing on price stability. It has been argued that while other central banks have transformed to respond to the sign of the times, the ECB mandate is limited by the Maastricht Treaty of 1992 (Stiglitz, 2017). Such arguments are valid points as it has been clear over the years that the establishment of EMU was not economically driven, rather mostly politically. Therefore, there are inherent design flaws in the structure of the ECB and EMU and thus, the bank is somewhat restricted in its actions.

3 Method

This chapter will describe the materials used in the thesis in addition to the methods being utilized for the analysis section. This thesis will analyse the annual hearings by the presidents before the Plenary of the European Parliament, with the exclusion of Lagarde, as she has only had one such hearing to this day. On her part, a public hearing prior to her nomination before the Economic and Monetary Committee will be used in addition to five hearings before the same committee since her term began. As such, a total of **22** speeches will be analysed.

3.1 Research Design and Data

For the analysis section of this thesis to include a well thought out sample size, it was necessary to determine speeches that occur consistently and regardless of the president. Therefore, the annual hearings before the Plenary was decided as the sample material. With the added exclusion of Lagarde because of the short time of her tenure as of yet. As mentioned, in her case, quarterly hearings were utilized.

The reason for choosing these specific materials is that they provide a clear and thorough narrative on what has been discussed before the Plenary and the Committee. These particular hearings are meant for the presidents to go over the economic developments and monetary policies, the overall functioning of the institutions in addition to the outlook for the near future. Thus, they provide an excellent setting for analysing how and what has changed over the years and different presidents in addition to what flaws are inherently visible and how the presidents conveyed their message across in the hearings. It is also noteworthy that solely the hearings of the presidents were chosen and not, for example council members. This was decided because even though a president of the ECB is only a part of the decision-making organ, they nevertheless wield enormous power and influence on the world economy. The heads of supranational institutions are aware of this and based on their influence, they harness the power of language to convey their messages. As such, it is obvious that the president's views are reflected in the policies implemented and in a way that the public and market actors react to this. Additionally, members of the press and public follow every single world the ECB president says more closely than that of the governing council members (Stiglitz, 2017). The speeches include the presidents discussing structural deficiencies in the national government's fiscal policies, the ineffectiveness of supranational institutions, and how the economic policies of EMU have changed along with the transformation of the ECB monetary policy.

3.2. Method

Critical Discourse Analysis (CDA) was chosen as a method as it is well suited to building a narrative relying on statements and hearings by the presidents regarding their views and thoughts on how the EMU is functioning and how the monetary policies of the ECB monetary policy has changed over the years. The fundamental ideas of CDA were based on critical thinking as a way to view society. Critical studies have been used in the past to pursue discussions in power relations, social power and control over groups. Presently, some of its concepts include critical exploration of knowledge, attitudes, social phenomena and ideologies. However, it may also be utilized in analyzing political discussion as by applying the theory, it is possible to investigate the words and tone used by the speakers to interpret different meanings. As such, the approach is suitable for analysing the discourse of these annual hearings because they are consistent and multiple (Van Dijk, 1993).

Therefore, by utilising this method, it is possible to identify different discourses for the monetary union problems and the incompleteness of the EMU. Furthermore, it is possible to create a narrative by focusing on what kind of language the presidents have been using through their hearings and what are the topics that are repetitive. CDA is also an approach that encompasses different disciplines and is used to study language or in other words, talk and text. The method can be used to research different topics, such as power relations, social interactions, economic situations in fields of politics, education and politics for example (Fairclough, 2010). The approach might differ depending on the person utilising it and clear-cut rules are difficult to mention. However, some characterizations can be observed according to Van Dijk (1995):

- “It is problem or issue-oriented, rather than paradigm-oriented. Any theoretical or methodological approach is appropriate as long as it is able to effectively study the related problems.
- Historically, and systematically, CDA is a part of a broad spectrum of critical studies in the humanities and social sciences.
- Among the descriptive, explanatory and practical aims of CDA- studies is the attempt to uncover, reveal or disclose what is implicit (pp. 18)”.

It is important to remember though that CDA does not belong to one specific school of thought, rather it takes a critical approach or position to study talk and text. Therefore, it is more than well-suited for this thesis and the analysis on the hearings of the ECB presidents and their statements regarding the incompleteness of the EMU, their power assertions and to study the change in the monetary policy the ECB has been conducting. Generally speaking, the role of critical discourse analysis is to investigate and reveal underlying problems in a given community, for example political problems regarding the ECB presidents' view of the EMU. By conducting this sort of an analysis, I attempt to uncover "hidden" messages in the way each president chooses his or her words. The language the speakers use and the tone of their sentences are crucial to understanding their underlying meanings.

Additionally, earlier mentioned hawk and dove definitions will be utilized in the following analysis section, as these are prime examples of how a central banker might use the power of language in conveying his or her message for the audience. Thus, focus will be given to sentences encouraging either accommodative or constrictive monetary policies in addition to the speakers communicating their views on the problems of the EMU. Furthermore, I mean to emphasize certain aspects by quoting a sentence in addition to lifting some wordings from the speeches to indicate a structure how the presidents communicate and convey their messages.

3.3 Limitations

Regarding the scope of limitations for the thesis, it is obvious that there will be constraints of different types. With an analysis such as this, it is always vital to take time and material limitations into consideration. Within the short span of a master's thesis process, it is impossible to conduct thorough research, as the presidents have been in hundreds of hearings and have given even more speeches concerning the subject in different forums. Thus, due to time constraints, limitations and clarity, it was necessary to decide on an event or a situation that occurs consistently and regardless of who is leading the European Central Bank. It was also necessary to limit the sample material in terms of its relevance. Annual hearings include important talking points for the presidents regarding how they view the overall functioning of the ECB and EMU. However, it is worthy of an acknowledgement that basing a study on larger sample size could have provided different results or altered my conclusions on the subject matter. Additionally, even though the material will span from the year 2003 until 2020, it is worth a mention that only minor focus will be given to the hearings before 2007 as I feel the years before the global financial crisis are not as relevant as the years after that regarding the research questions of this thesis.

Additionally, I need to be aware that critical discourse analysis does not reveal underlying truths and cannot read what the person whose speech is being analyzed is thinking. As such, this analysis aims to gain further knowledge in how language, statements and arguments being used can emphasize the message. Therefore, assumptions need to be made and these need to be carefully examined.

4 Analysis

As mentioned, focus will be given to three presidents that served the central bank during the Euro crisis and further on amidst the COVID-19 pandemic. These three persons were and are different in their backgrounds as well as their perspectives on what the European Central Bank should look like. Hence, it is logical that this is reflected on their opinions. It is also worthy of a mention that the role of different crises have been and are crucial for the evolution of institutions in addition to the roles of their leaders. Therefore, the impact of, for example the Euro crisis was that it revealed problems, holes and flaws in the framework of both the EMU and the ECB. Were it not the case, there would not be debates regarding the ECB exceeding their mandates or overstepping their boundaries. The global financial crisis and the subsequent Euro crisis showed that the EMU was flawed from the start and the common currency was not as strong as the public was made to believe. Whereas the corona crisis has been handled relatively better and faster, in a sense that this time the ECB was not afraid to inject money into the markets. However, what the implemented policies have shown is that it might be that the ECB has run out of ammunition.

4.1 Trichet (03-11): Austerity Measures and Incomprehensible Decisions

Jean-Claude Trichet succeeded Willem Duisenberg in 2003 and he spent the whole eight year fixed-term as the President of the ECB. Taking over the position after only four years since the inception of the ECB, his tenure at the helm has been described as eventful, to say the least. According to Stiglitz (2017):

> “Trichet will be remembered for his colossal misjudgements, in particular raising interest rates at moments where the economy was contracting. He demonstrated a commitment to fulfilling the ECB’s mandate, fighting inflation, come what may. He played a disastrous role in the development of the euro crisis…(pp. 165)”.

Trichet did seem adamant in focusing solely on the primary mandate of the ECB in maintaining price stability and through it, fighting inflation. It is evident from his statements that this is what he and the Governing Council cared about as especially during the first years of his presidency, he never forgot to mention the inflation targets of close to, but below 2% and how this had been a success with an average inflation rate of 1,95% within the Eurozone. This, of course, was wonderful and could be regarded as a success. However, what his statements are missing is that the fluctuation of the inflation rate within Eurozone countries had been large, in some cases many percentage points. In many cases, the divide had been among the “northern” and “southern” countries. Additionally, Trichet referred to the time when the single currency and the EMU were established with a clear implication that inflation rates were much higher in the Eurozone before, mostly using Germany as a prime example. However, Stiglitz notes that inflation was never the issue, even when the Eurozone was founded (Stiglitz, 2017). The inflation rates have been fluctuating even after the establishment of the ECB, even many percentage points between countries. Yes, the average is 1,95%, yet he does not go into specifics so as to circle around the detail. What is also evident when studying the history is that the EMU failed to acknowledge that Europe and the Eurozone is a vast area of hundreds of millions of people with a multitude of different languages, cultures and governments that conduct economic and fiscal policies in various ways. By attempting to gather them under the same umbrella has not been unproblematic and it has also led to difficulties in managing the monetary policy. Thus, it could be concluded that from the start that the primary mandate of the ECB was somewhat limited in its scope.

Since the beginning of his tenure, Trichet more or less unequivocally praised the European Central Bank and called on national governments and/or other institutions to do more for the Eurozone. In his first hearing at the European Parliament, he mentioned that he has been disappointed in the fiscal policies of national governments and further implored structural reforms and adherence to the rules of the Stability and Growth Pact, stating the no Excessive Deficit Procedures (EDP) had been implemented. This event is also one of the many where he mentioned that the sound and credible monetary policy of the ECB is not sufficient in itself, proper fiscal policies are needed as well:

> "A sound and credible monetary policy is a necessary condition for sustainable growth and job creation but is not in itself a sufficient condition. Other conditions must be met, in particular, sound fiscal policies and appropriate structural reforms. In this respect, in the area of fiscal policy the year 2003 proved disappointing (Trichet, 2004)".

This statement is a prime example of Trichet asserting himself as a monetary hawk in respect that he promoted, in particular, fiscal policies and structural reforms. The commanding tone of the sentences indicate a powerful central banker, who is in a position to demand changes and improvements to steer the economy onto its proper path. The following years his opinion did not waiver and he felt that the fiscal policies are still a problem, the results far from satisfactory in addition to promoting budgetary consolidation. Furthermore, he is a strong supporter of the Stability and Growth Pact and his frustration is clear from the repetitive comments on the need to comply with the provisions of the SGP in fiscal consolidation (Trichet, 2005; Trichet, 2007). In 2008 when Trichet recalled the economic and monetary developments from the past year he again reminded the European Parliament that economic divergences cannot be addressed by monetary policy, structural reforms by national governments must be undertaken:

> "The draft resolution also refers to the risks posed by economic differentials across euro area countries, which to some extent reflect structural rigidities and/or inappropriate national policies. It goes without saying that economic divergences across euro area countries cannot be addressed by monetary policy (Trichet, 2008)".

As a supranational entity, the ECB is, in a way, supervising the whole Eurozone and its president is therefore comfortable in demanding change from national governments by using carefully selected phrasing of sentences. Additionally, it seemed that Trichet is of the opinion that the ECB is the only institution trying to keep the Eurozone on the right path while other institutions and governments are merely waiting. This similar argumentation continues in the next Plenary hearings, when Trichet continued to focus on the smooth functioning of the EMU and how it will not be possible to go forward with the "monetary" side of the union, the "economic" pillar is needed as well. Furthermore, he argued for more and improved economic governance and financial regulation. Additionally, in his last Plenary hearing he briefly mentioned the upcoming establishment of the European Systemic Risk Board (ESRB) as a major improvement in financial supervision and the EMU framework (Trichet, 2010a; Trichet, 2010b).

What is evident from these hearings, is that Trichet was wholeheartedly content in how the ECB had managed through the years. He insinuated that the European Central Bank cannot do anything wrong, rather the difficult times and the crises the Eurozone had endured were the results of weak European integration, lack of strict fiscal policies by national governments and exogenous actors. It is understandable that before the Euro crisis things seemed to be going well and the Euro project had succeeded. After the signs of a financial crisis in the United States began to show in Europe, he seemed to increase the arguments of national governments structuring their fiscal policies properly, emphasizing the need for prudency. It is clear from his statements that he felt that fiscal consolidation and economic growth goes hand in hand. As such, it comes as no surprise to think back on the austerity measures imposed on Greece during the Greek government debt crisis with Trichet at the helm of the ECB (naturally, there were other actors involved in the Troika as well). It is also noteworthy that Jürgen Stark was the chief economist at the ECB during Trichet's tenure. Stark is a model representation of a German ordoliberal economist and thus, it comes as no surprise that the ECB conducted hawkish monetary policies during this time. Finally, in addition to calling for more prudential and stricter fiscal policies in his hearings, Trichet emphasised the contribution of the monetary pillar and how the economic one has been less flattering. He derives the problems of the crisis in insufficient discipline of policy makers and the lack of adhering to the rules of the SGP. These speeches strengthen Trichet's stance as a hawk and implies that he is looking to get back on restoring the monetary policy of the ECB on its track as soon as national governments function properly. One of the attempts to return to this path was the establishment of the already European Systemic Risk Board

(ESRB) that was established to oversee the financial activity within the European Union and thus, provide the much commanded macroprudential supervision. Though independent, the ECB acts as the host and parent agency.

4.2 Draghi (11-19): Whatever it takes, QE & Unconventional Policies

Mario Draghi served as the President of the European Central Bank from 2011 until 2019 and it was during his tenure that a distinct differentiation from Trichet's policies was seen. He inherited a rather difficult economic situation from Trichet and the Eurozone had dire times ahead. The monetary policies implemented took a swift turn and it was seen that the hawkish, contractionary style had not produced a desired eventual outcome. The Eurozone was struggling with national debts and drastic measures were needed to save the Eurozone. At his first appearance at the Plenary of the European Parliament in December 2011, Draghi emphasized the limited influence the ECB could make with monetary policy alone and implored the governments to individually and collectively restore credibility with regards to the financial markets. He noted that the establishment of the Six Pack and European Semester were improvements over the Eurozone fiscal supervision and add more intense scrutiny over economic policies, in addition to the need for a new fiscal compact:

> "I am confident the new surveillance framework will restore confidence over time. I am also quite sure that countries overall are on the right track. But a credible signal is needed to give ultimate assurance over the short term. What I believe our economic and monetary union needs is a new fiscal compact – a fundamental restatement of the fiscal rules together with the mutual fiscal commitments that euro area governments have made (Draghi, 2011)".

In his first hearing, it seemed as though Draghi was asserting his power dominance over the Plenary because otherwise, he is speaking from the ECB perspective. Meaning that he most often referred to the ECB as "we", whereas in these few instances he was commanding attention to his own thoughts and views. Regarding the economic outlook and measures needed to battle the ongoing crisis, he implied that Treaty changes should not be completely discarded, yet faster processes were also conceivable (Draghi, 2011). Sure enough, only after roughly half a year of working as the President, Draghi gave probably his most famous speech in London. Bastasin (2015) recalled the event from July 2012, as it marked a turning point for the Euro crisis and was an implication of unconventional policies to come;

> "When people talk about the fragility of the euro and the increasing fragility of the euro, and perhaps the crisis of the euro, very often non-euro area member states or leaders underestimate the amount of political capital that is being invested in the euro. And so we view this, and I do not think we are unbiased observers in Frankfurt, we think the euro is irreversible. And it's not an empty word now, because I preceded saying exactly what actions have been made, are being made to make it irreversible. But there is another message I want to tell you. Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And...believe me, it will be enough (pp. 395)".

This speech had a vast impact on the global economy and especially the Eurozone. Why did it make such a difference? It is noteworthy that many political leaders had assured the public that they would do anything they can to save the euro and fix the economy. Yet, they were not in a position to uphold their assurances. However, Draghi was not a political leader, he was the president of one of the most influential central banks in the world, which by extension, makes him a powerful person. His words would have a meaning and they would make an impact. This is exactly why the markets were able to believe his statement to do whatever it takes. Draghi has also spent time during his career in managing a multinational investment bank, which adds to his expertise on the financial markets. Moreover, Draghi did not specify what these measures were going to be and he did not provide any roadmap to success during this speech. Hence, it was almost impossible to attack against his arguments (Brunnermeier et al., 2016). At a Plenary hearing in April 2013, the Outright Monetary Transactions (OMT) program had been announced and Draghi mentioned that it has proven to be an effective backstop against unfounded fears of reversibility. Additionally, the strict conditionality of the program prevented moral hazard by the governments. However, it begs to question whether the announcement of the program was needed or would the aforementioned speech have sufficed.

Draghi criticised the lack of preparation on the member states' parts in realizing what it means to be a part of the EMU: "Prior to the crisis, Member States did not internalise fully what it means to be part of EMU. Fiscal and economic policies were not sufficiently geared towards the conditions of being a member of a single currency zone. But the lessons of the crisis have been learnt (Draghi, 2013a)". Again, Draghi was asserting power dominance over his audience as the head of one of the most affluent central banks in the world. He also used terms such as "forcefully" and "commitment" when referring to the implementation of new frameworks. Late 2013, he mentioned that the ECB implemented *forward guidance* to clarify the orientation of their monetary policy path and stated that the ECB has gone beyond the Treaty requirements in transparency. Additionally, he began reminding the Plenary about the EMU roadmap that encompasses four pillars; the fiscal, economy, banking and political union. The steps taken with the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM) were great leaps forward, yet they were not sufficient enough to complete the EMU. To stabilise the fragmented financial market and the EMU, fiscal consolidation was needed (Draghi, 2013b).

In 2015, he recalled the launch of the outright purchases as the Governing Council decreed that the monetary policies implemented have been insufficient as the inflation rate had been on a downward trend. Therefore, a more "forceful" response was needed and the outright purchases of securities was the only instrument left. Again, he reminded the Plenary that the EMU was not finished and the economic convergence had not been as sustainable as hoped. As such, this constitutes a great risk when faced with another shock of this magnitude. This could be prevented by reforming the economic structures of member states. Draghi also felt that it was necessary to move from a system of rules and guidelines for national policy making to a system of further sovereignty sharing with common institutions. He used a multitude of phrasing, such as "need to" and "is required" when commenting on the lack of economic and institutional convergence on the Member State's part (Draghi, 2015). These comments feel as though Draghi was looking to move away from the foundational rules-based system of ordoliberalism. This similar trend continued in the next hearings as he was adamant in that progress had been made, yet much more was required. Further improvements and regulations were needed in the banking union. Fiscal policies should also contribute to the economic recovery, not hinder it and thus, the implementation pace of structural reforms need to be increased (Draghi, 2016a; Draghi, 2016c).

In 2018, Draghi noted the efforts the ECB had taken to improve prudential regulation and supervision over the financial markets. This, in addition to the banking union, has helped financial stability. However, the banking union was not a complete one and it should be further “strengthened” with the agreed backstop to the Single Resolution Fund (SRF) and establishing the European deposit insurance scheme (EDIS). During this hearing, Draghi additionally touched upon the concept of quantitative easing and its role in increasing economic inequality. He acknowledged the negative side effects as the distribution of wealth generally goes to wealthy institutions or people. However, the longer-term goals are the increase in employment which, in turn, would benefit all. Moreover, there had been criticism from some of the European Parliament members that the ECB monetary policy would not have been effective in unconventional times. Draghi continued to emphasize the other institutions and national governments’ responsibilities towards the Eurozone as well (Draghi, 2018). In the last Plenary hearing in January 2019, Draghi recalled what had happened and how the economic and financial landscape had transformed, which also required the ECB to transform. He felt that the toolbox of conventional and unconventional monetary policy instruments have helped the ECB to evolve as an institution. The crisis showed the Eurozone that it entered one with an incomplete institutional and regulatory framework. The creation of the banking union and the ESM helped the Eurozone to prepare for the future, yet it took time and this time was lost for the recovery. At the end of the hearing Draghi became more critical and mentioned that the ECB had a role to play but it could not possibly fill all the other roles, because the role of the ECB is monetary policy. He also criticised the incompleteness of the EMU, not finishing what had already been decided, namely the banking union. In addition to the capital markets union and building more fiscal capacity (Draghi, 2019).

Thus, what conclusions can be drawn from Draghi’s hearings before the Plenary of the European Parliament over the years? In the beginning of his term, it seemed that Draghi was opposed to quantitative easing and asset purchase programs and it seemed to have taken a while for him and the Governing Council to realize what the ECB needed to do. However, following his famous speech and the promise of buying unlimited amounts of Eurozone government bonds, the initiation of the ECB use of unconventional monetary policy tools was ready to begin. Early in his tenure, he commented on the structural flaws in the current system and the fact that new measures are needed to tackle the transforming economic and monetary environment. This can be interpreted as an implication of unconventional policies and the need for a transformation in addition to the need to strengthen the regulatory framework of the EMU. For most of Draghi's tenure it seems, the ECB was slowly ridding itself away from hawkish and prudent monetary policies. Rather, the 2012 speech led to dovish quantitative easing a few years later by the bank, which was, by their standards, non-conventional. However, from these hearings, the encouragement of prudent fiscal policies can be observed nevertheless. Draghi urged on multiple occasions that the Eurozone needs to have a fiscal policy that could make a difference. He seemed to be of the opinion that there needed to be a move from rules-based national fiscal policy to an institution-based fiscal capacity. Monetary policy could only do so much and it needed a stable fiscal policy to complement it and it seemed that national governments have the fiscal capacities but were not using it. Thus, he shared similarities with his predecessor, yet the way to achieve these goals were largely different. He also acknowledged that when inflation is too low, there are limits as to how low can interest rates be cut. When that time arrives, central banks are required to resort to other tools than policy rates to achieve their goal. Additionally, Draghi was aware of the negative side effects of the unconventional tools as they required the ECB to operate in a broader range of markets. Thus, implying that the transition from a hawkish monetary policy to dovish was a required transformation.

Nearing the end of his tenure, strong criticism towards other institutions and national governments can be observed. Draghi implied that too much responsibility had been left for the ECB and the actions of other actors were not sufficient enough. The continuous and repetitive use of such phrases as "we must", "there is a need" and "to strengthen" are signs that required steps towards a complete economic and monetary union had not been taken. As mentioned, the ECB is limited in their mandate and their role is the monetary policy of the Eurozone. As a consequence of the unconventional policies implemented during Draghi's term as the president, the balance sheet of ECB more than doubled following the asset purchase programs of quantitative easing (Gordon, 2020). However large the balance sheet of the ECB eventually grew, Draghi is still viewed by many as the man who saved the Eurozone and has been largely credited for its survival with the famous speech and subsequent programs. Some wondered whether the ECB had the authority to actually do whatever it takes, yet as long as no one cared to find out, the markets were happy (Stiglitz, 2017).

4.3 Lagarde (19-): COVID-19 pandemic and PEPP

Christine Lagarde assumed the seat of the President of the European Central Bank after Draghi had served the fixed eight year term in late 2019. As she has been the president for a short period of time, her stance on monetary policy and the way the ECB is headed is still relatively unknown. Prior to her appointment though, she was at a public hearing before the Economic and Monetary Committee at the European Parliament. During this hearing she answered many questions by members and cleared some of her thoughts on the economic outlook for the future. In her answers, she acknowledged that they should be mindful of the negative effects and potential side effects of the unconventional policies the ECB has implemented as the long-term impacts are still uncertain. As important short-term goals she saw the further development of the European Stability Mechanism, strengthening fiscal capacity and establishing budgetary instruments for competitiveness and convergence (Committee on Economic and Monetary Affairs, 2019). As such, she inherited a situation of economic uncertainty, yet one of relative stability. The economic growth in the Eurozone was, at the time, rather slow and it was rightful to ask whether the ECB had any weapons left to stimulate the economy. Therefore, even without another major financial crisis, there remained a lot to improve for the Eurozone. The unconventional monetary policies Draghi implemented had been efficient in responding to the Euro crisis, yet did not seem strong enough in promoting sustainable economic growth and thus, from the outset, her first challenge should most likely have been promoting pro-growth policies to avoid another lost decade in Europe.

In the first hearings at the Committee on Economic and Monetary affairs of the European Parliament in 2020, Lagarde stated that the ECB has decided to launch a review of its monetary policy strategy as the last one was released 16 years ago. Logically, a great deal has happened and transformed over the course of the years and thus, the review is necessary to properly evaluate its monetary policy and whether it serves the economy best. She also felt that it was necessary to enhance communication to the public as many European do not know what the ECB is and what it does (Lagarde, 2019; Lagarde, 2020a). At her first Plenary hearing in February 2020, she expressed concern regarding the limits of monetary policy as it could not and should not act as the panacea for everything. Moreover, she was worried that the longer the ECB provided accommodative policies, the greater the risks became, the same risks she mentioned at the public hearing before her nomination. The EMU should be strengthened with structural and fiscal policies in addition to a full banking union (Lagarde, 2020b). What is interesting here, is that Lagarde does not use equally "forceful" language as Trichet and Draghi. She has not urged, commanded or implored more actions from the national governments or other institutions, rather she has taken a more diplomatic route of addressing the Plenary and Committee with joint phrasings. She has encouraged cooperation and combining forces and joint operations. It seemed then, that in the beginning of her tenure she focused on the same factors that Draghi had left her but with a different mindset and a more conciliatory approach to discussion. Possibly due to her being new in the position or it merely is her way of conducting business.

She did not, however, have a great deal of time to adapt to her new role before the outbreak of the COVID-19 pandemic, bringing the already slowing global economy to a halt. Moreover, this was and is a crisis brought about by exogenous factors and thus, difficult to assess, as the situation can be even more unpredictable than crises stemming from endogenous factors. Therefore, no significant change of direction from the ECB has been seen yet since it has been responding to the acute crisis phase. At her Committee hearings since the outbreak in June, September and November 2020, she mentioned and complimented the swift response of the ECB in devising its Pandemic Emergency Purchase Programme (PEPP), launching it in March and further extending the envelope in a short time. The programme was devised "to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus (COVID-19) outbreak (European Central Bank, 2020b)". It was designed to function only as a temporary asset purchase program for private and public sector securities. Initially, the programme budget was set to €750 billion, however it was further enlarged by €600 billion to a total of €1,350 billion (European Central Bank, 2020b). Additionally, in the last Governing Council meeting in December 2020 it was decreed that they shall keep injecting money into the markets to stimulate the economy and even increased the envelope by €500 billion into a total of €1,850 billion. These measures shall last at least until the end of March 2022 and until the crisis phase of the coronavirus is judged to be over (European Central Bank, 2020e). Lagarde additionally acknowledged that more actions are needed, namely the swift implementation of the Next Generation EU package as this would make a great impact on the recovery of the Eurozone (Lagarde, 2020c; Lagarde 2020d; Lagarde 2020e). The next Governing Council meeting in late January 2021 did not change anything dramatically. However, should the stance of the ECB change once the pandemic has been defeated? Currently, it seems that Lagarde is continuing on the same path as Draghi but what happens after the pandemic, one can only guess.

In conclusion regarding Lagarde, is that she has naturally given a great deal less speeches as the president because it has only been a bit over a year since she started in the position. As such, it is impossible to deduce which way the ECB will head towards in the following years under her leadership and in "normal" conditions, whatever that may mean in the near future. Regardless, some implications can already be seen, such as maintaining a dovish position on monetary policy that Draghi left her in addition to stimulative measures brought on by the pandemic. Furthermore, her language and expressions greatly differ from her predecessors in a way that she conveys her opinions more diplomatically. Trichet and Draghi had both asserted their influence more visibly than Lagarde. What has also been observed is that Lagarde and the ECB reacted to COVID-19 relatively quickly compared to the Euro crisis.

5 Conclusions

Finally, it is time for concluding remarks and reflections on the topics covered: what kinds of flaws have the presidents observed in the EMU framework, how the monetary policy conducted by the ECB has shifted between and what are the implications for the presidents molding the future? The topic of the ECB and monetary policies have obviously been more topical after both the financial crisis and the Euro crisis upon the realisation that there are severe structural deficiencies in economic governance of the Eurozone. Additionally, many academics argue that even the whole Eurosystem was created too quickly and it was far from an optimum currency area (OCA). Member States were, for most part too different and some might have even been unable to follow fiscal policies required to uphold the currency area. A severe structural flaw was that only the monetary policy was centralized, leaving fiscal policy the sole responsibility of each of the member states (Koskenkylä, 2016). This, in turn, has led to difficulties in managing problems that arise in times of crises for the EMU. Upon analysing the hearings, the urge to strengthen government fiscal policies was repetitive and present for all three presidents.

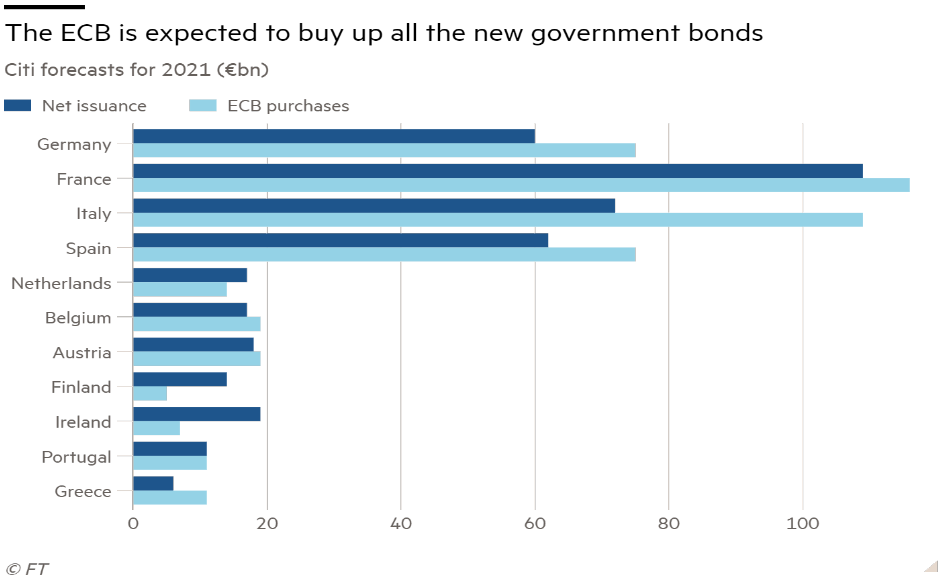
The actions of the ECB in managing crises has additionally been interesting and worth a mention. They have been, at times clumsy and slow in addition to the implemented measures that have been inadequate. Moreover, the unconventional toolbox utilised have been under public scrutiny due to the contradictory ruling and interpretation of the Treaty (Korkman, 2013). Regardless of the contradictions, the reputation of the ECB is still more or less intact after tumultuous times. Brunnermeier (2016) discusses the Euro crisis impact on the ECB credibility;

> "According to some observers, the ECB came out with its reputation enhanced, its independence fully intact and near universal respect from both inside and outside the euro area. As an institution, however, it suffered significant collateral damage. Its internal cohesion has been badly shaken. Trust has repeatedly been broken between its members. It was hit by two successive resignations from its governing council (pp. 372)".

As can be observed, clashes have happened even within the Governing Council as well. Furthermore, many of their ruling decisions have not been unanimous and thus, following these crises, public trust has, at times been wavering for the ECB and should the trust be lost completely, it would lead to a crisis. Because of this, it has been highly important for the ECB to maintain its credibility as well, albeit this is not stated in their mandate.

Second, there is the problem of extensive quantitative easing as the injection of money into the markets has been the most utilized measure of the ECB in battling slow growth and the current pandemic. Though problematic, commonly consensus states that QE is needed and it is difficult to currently see another action that would work as the economy is suffering due to various factors and thus, money needs to be "pumped" in order to keep the economy running. After the hawkish austerity measures during the Euro crisis to the subsequent stimulative and dovish unconventional monetary policies, the future is difficult, if not impossible to predict. However, it is clear that the central bankers are one of the high-profile people to have an impact on that future. Another thing to note is that after the historically strange times, the balance sheet of the ECB has exploded dramatically and this increase is extraordinary in the bank's short-lived existence. Only time will tell what effects it will have on the economy. All the three presidents of the ECB during crisis times have called for stronger fiscal prudence by national governments and have emphasized the need for stronger European integration while also implementing loose monetary policy since 2015. Yet, it is certain that the ECB has embarked on a road of seemingly endless quantitative easing and it is unclear how to untangle this web after the pandemic is over. The ECB in addition to the Fed, along with many other central banks are vowing to continue stimulating the economy and have extended their emergency purchase programmes in many recent decisions. Hence, the sheer size of the pandemic emergency purchase programmes alone is historic as is the further continued time frame of them.

Third, the interconnectedness of central banks and politics has also grown stronger, albeit the European Central Bank still claims to be completely independent. It will be increasingly difficult for the ECB or its presidents to stay out of politics or not respond to political pressure with the quantitative easing it is conducting since it is buying up such large amounts of assets and thus, having an influence on the total level of money in circulation. By deciding which assets to buy and where, it is also having an effect on where the capital is allocated (Colliard, 2020). This is also alarming in the sense that the ECB seems intent on buying as much government bonds as needed to prevent tighter monetary policy than we are currently experiencing, a clear implication that dovish policies will continue.



Picture 5 Citigroup projections on ECB purchases of new government bonds for 2021 (Stubbington, 2020)

What can be concluded? In essence, by analysing the hearings of the ECB presidents during the tenures of the three presidents listed in this thesis, the path taken has been clear - from hawkish stance during Trichet's years to Draghi's change into a dovish position and the injection of money into the markets. The unconventional monetary policies were started as the conventional ones were not enough to maintain price stability amidst crisis times. This was a clear reflection on the incompleteness of the EMU, the preparedness of the union was inadequate. This was not ignored by the presidents of the ECB, as all three repeatedly called on the completion of the union. Additionally, as has been argued within the course of this thesis, the quantitative easing that was implemented in 2015 was too little, too late. Critics feel that the slow response has led to a lost decade of economic growth in Europe. Had the large quantitative measures started earlier, it might have been possible to spark the growth earlier as well. Therefore, should the transition from contractionary, hawkish monetary policy to accommodative, dovish version have been implemented earlier, some of the more severe impacts of the Euro crisis could have been prevented. As this did not happen and the Eurozone began their slow recovery only in 2012, there was not enough time before the COVID-19 pandemic brought the economy to a halt again.

Presently though, fear of indebted European countries exist as large stimulus packages have been approved and the ECB keeps on expanding its asset purchase programs while maintaining negative interest rates. With the increase in the ECB budget in addition to the already historically low interest rates, it begs the question, have the central banks run out of weapons to battle future crises and how will the presidents shape this? What is the next step and what kind of monetary policy will be conducted?

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